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CENTRAL INTELLIGENCE AGENCY

REPORT NO.

INFORMATION REPORT

CD NO.

COUNTRY

China

DATE DISTR.

8 June 1950

Subject

State of Negotiations Between Chinese Communist Government and British

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SUPPLEMENT TO REPORT NO.

The London Foreign Office has instructed John C. Hutchison, now in Peiving to negotiate the exchange of diplomatic representatives between China and England, to remain in Peiping and continue the negotiations despite the present critical line of the Chinese Communist press. The British, however, are waiting for the Chinese to make the next move.

In the opinion of the British Consul General of Canton the Chinese will take 2. action shortly\* for the following reasons:

> The Communists are eager to take over Nationalist property in Hong Kong, Malaya, and other British controlled areas. The property in Hong Kong consists of large stocks of railroad ties, rails, minerals, and oil of the National Resources Commission; ships of the China Merchants Steam Navigation Co.; and seventy-one planes of the CNAC and the CATC. Although not allowed to have these assets the Communists are paying for their care and upkeep. Hutchison has told the Chinese that the takeover of these assets can only follow satisfactory completion of the negotiations.

> The Chinese Communist Government is particularly anxious to have ships in Hong Kong of 1,500 to 3,000 tons to be used as transports for the Taiwan invasion. There are such ships that can leave without the legal entanglements that will hold up the planes when negotiations are completed.

The Communists want a suitable trade agreement in order to sell tung oil, other vegetable oils, bristles, wolfram, etc. through Hong Kong, so as to gain foreign exchange for purchase of essential goods.

Although the return of Hong Kong and the New Territory still appears to be the issue which is holding up the negotiations, the British think it is only being used by the Communists as a bargaining point.

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Comment. Source is not clear as to how much his informant has added to the facts and opinions of the British Consul General. See for other opinions on the status of the negotiations.

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25X1X6 \* Comment. Immediate agreement between the British and the Chinese Communists is unlikely, and a break off of the negotiations, instigated by the Chinese, is still a good possibility.

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